

SENATE TAXATION

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Optional revenue

By JOHN HARRINGTON - IR Business Editor - 01/14/07

Looking for ways to generate local municipal revenue and provide property tax relief, cities across the state are again lining up to support a local option sales tax at the Legislature.

The tax would do exactly what the name suggests: give people who live in cities the opportunity to vote on whether to impose a local sales tax.

That authority currently exists in limited circumstances: resort towns with small populations. Local sales taxes are collected in a handful of smaller towns in the state, but there's been long-running resistance to broadening the policy to include the state's major cities.

"We're not looking so much for more revenue. What we're looking for is an alternative to property taxes," said Alec Hanson of the Montana League of Cities and Towns.

Some opponents dislike the notion of any new tax. Others, who support a state-wide general sales tax, believe a local option tax would further hinder efforts to pass a uniform statewide sales tax. And some say citizens of the state's rural areas will be stuck paying the tax when they go to town, but won't benefit from it.

"If Montana needs a new tax, it needs to be broad-based and applicable statewide," said Mary Whittinghill, president of the Montana Taxpayers Association. "You'll hear how successful it is in some places, but those cities are destination points. Those are communities where there are not a lot of businesses."

Two years ago, a local option tax bill got through the Democrat-controlled Senate but died in the split House. Hanson said a bill this year, as yet unintroduced, would likely start in the Republican-led House.

First resorts

Officials in three Montana communities that currently collect selective sales tax — often called a resort tax in those tourism-based areas — has shifted much of the tax burden to visitors. Businesses owners tend to agree.

Typically, the tax focuses on services used extensively if not primarily by tourists: hotel rooms, restaurant meals and selected retail items. Groceries, medicine and other essentials are generally excluded.

West Yellowstone had the state's first resort tax, approved by voters and first collected in 1986. The first year's collections — 3 percent on lodging, restaurant meals and most retail sales — amounted to around \$300,000, according to town clerk Elizabeth Roos. Last year, the collections swelled to \$1.8 million. By comparison, the town collects around \$200,000 from property taxes, Roos said.

"When new people move to town, they just laugh" at how low some of the taxes and fees are, Roos said. "We're used to (the tax), and it's clearly necessary. We would not be able to get by without it."

Whitefish City Manager Gary Marks points to two votes on the resort tax as proof that citizens bought into the idea after it was in place.

The first Whitefish vote on the tax, in 1995, passed with 54 percent of the vote. In 2004, a measure to extend the tax was approved by 75 percent of voters.

"So somebody decided they liked it that didn't like it before," Marks said. "There's a sense in the community that it's working. We were able to address some of our worst infrastructure deficits and provide property tax relief to residents of the city. We're spreading the burden of the upkeep of our infrastructure to the people who visit our community, and not just the residents."

About two-thirds of Whitefish's 2 percent resort tax collection goes to some of the most basic city services: streets, sidewalks, gutters, curbs and underground utilities. A quarter of it goes to property tax relief, with smaller portions to bike paths and the administration of the tax.

Since its inception, the Whitefish resort tax has totaled more than \$9 million, with over \$2 million returned to property tax payers.

Dean Gianof, co-owner of Sportsman and Ski Haus, an outdoor/apparel retailer with stores in both Whitefish and Kalispell, said he supports the resort tax, even though "it did hurt business the first few years."

Gianof said visitors are in most cases accustomed to paying sales tax anyway, and that many locals continue to shop in Whitefish to support the community.

"I think it's done nothing but good things for Whitefish," he said. "And any time you drive down the road you notice the effect it's had."

It's not always an easy sell. Red Lodge voters twice rejected a resort tax before approving it in 1998.

"I personally don't feel like it's a bone of contention with anyone any more," said City Clerk Debbie Tomicich. "People have gotten used to it and seen some of the things it has done."

Like Whitefish, Red Lodge is obliged to use the tax money for the basics: streets, water, sewer and parks. In addition to a new public restroom/warming house and liner for the skating rink, Tomicich said Red Lodge completed a water and sewer project two years ago, and while the resort tax didn't pay for the whole job, the work was paid for without raising property taxes or borrowing money.

Even though he lives outside the city, Art Maxwell of the Red Lodge Chamber of Commerce said he supports the tax.

"If there was much objection, we'd hear about it, and we don't hear about it," he said. "For the most part, it only impacts me when I go out to eat, but I use all these services. I use the parks, I use the street. The streets in this community have improved dramatically."

Taking sides

Two years ago, city officials from across the state testified in favor of the new taxing authority, while industry groups and chambers of commerce were split.

Looking at communities that use the resort tax, "They like the money, their mills have gone down and their infrastructure is in better shape," said Helena City Manager Tim Burton.

Burton noted that cities by law can only raise property taxes by half the rate of inflation over the past three years. New construction (creating a larger base of property-tax payers) makes up some of the difference in Helena, he said, but an option tax would help spread the burden of paying for services to everyone who uses them.

The Montana Chamber of Commerce opposed the option tax and will do so again, according to president Webb Brown. Brown said allowing cities to establish their own sales taxes could lead to a confusing patchwork across the state — different rates, and different items taxed or not taxed from one city to the next — and that people in rural areas may not see the benefits.

"It also diminishes the opportunity to look at a real tax reform solution on a statewide basis," he said. The state chamber does support a statewide sales tax accompanied by property tax cuts.

The proposal was also opposed by the Montana Farm Bureau, the National Federation of Independent Businesses and the Montana Stockgrowers Association.

Hanson said that to placate rural Montanans, a provision in the 2005 bill would have set aside 25 percent of the tax collections to be distributed to outlying areas.

In addition to the cities, support came from chambers of commerce in Billings, Bozeman and Kalispell, as well as the Montana Innkeepers Association.

Cathy Burwell, president of the Helena Area Chamber of Commerce, said the local chamber isn't taking a position on the local option tax after a poll of member businesses showed a 50-50 split.

"I don't think Helena would vote it in," Burwell said. "People are well aware that an option tax is just a nice way of saying sales tax, and people don't want a sales tax."

Hanson pointed to a 2003 governing.com study to highlight the inadequacy of Montana's collections from out-of-staters. The study said Montana collects just \$34 in taxes from a typical week-long visitor, while Wyoming nets \$122 and Utah gets \$239 from the same one-week visit.

"This is designed to capture some of the money that's spent every year in Montana by tourists," he said. "The cities and towns have to have a way to provide the services that people expect."

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